

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Second Quarter of 2006 through the Fourth Quarter of 2009

The Idaho economic outlook has brightened since the previous forecast. This improvement reflects the combined positive impacts of the state's recent economic performance and the projected stronger national economy. Since the details of the U.S. forecast are dealt with in the National Forecast Description section of this publication, they will not be repeated here. Instead, this analysis will focus on Idaho's recent history and near-term prospects. Idaho nonfarm employment in the last quarter of 2005 was nearly 3,000 jobs (0.5%) below DFM's April 2006 forecast, with virtually all of the difference in the nongoods-producing sector. The gap between forecasted and actual goods-producing sector employment was just four jobs.

The strong performance of the state's goods-producing sector in the first quarter resulted in actual total nonfarm employment coming in much stronger than had been anticipated. Bolstered by the surge of construction employment, Idaho goods-producing employment came in about 2,800 jobs above target. On the other hand, nongoods-producing employment came in about 800 jobs below expectations. The net result is Idaho total nonfarm employment was nearly 2,000 higher in this year's first quarter than had been predicted in April 2006. Looked at another way, instead of growing at a projected 3.3% annualized pace during the first quarter of this year, Idaho nonfarm employment increased at a 6.6% annualized rate.

The recent strong employment performance has increased the jobs forecast in two ways. First, it has raised the starting point of the forecast by about 2,000 jobs. Second, the state's job growth has more momentum than had been previously predicted. These two factors, combined with the improved national economic outlook, translate into higher future job growth. Specifically, Idaho nonfarm employment was previously forecast to expand an average of 2.7% annually from 2005 to 2009. In the current forecast it advances 3.0% per year. At this higher pace, Idaho nonfarm employment reaches about 688,100 jobs in 2009, which is about 5,600 more jobs than in the previous forecast.

Interestingly, this year's first quarter Idaho personal income is actually weaker than in the previous forecast despite the improved job performance. One reason for this is the wage and salary payment component of personal income is down \$36 million. This is expected because of the way data is collected and released. Traditionally, income data have a longer lag than employment numbers. As a result, initial income estimates provide a more dated picture of the economy than the employment data. The gap between these two measures is especially wide when the economic growth are rapidly growing or slowing. The income data eventually "catches up" with historical employment data. Because Idaho's economy has been rising so quickly, DFM believes the current wage and salary payments estimates underestimate actual activity and, as such, will be revised upward in the future. The initial estimates for farm proprietors' income and interest, dividends, and rents are below their previously forecasted counterparts. Farm proprietors' income estimates are notoriously volatile, and they can be revised for several years after their initial release. Dividends, interest, and rents are not usually subject to huge revisions, so this component deserves close watching.

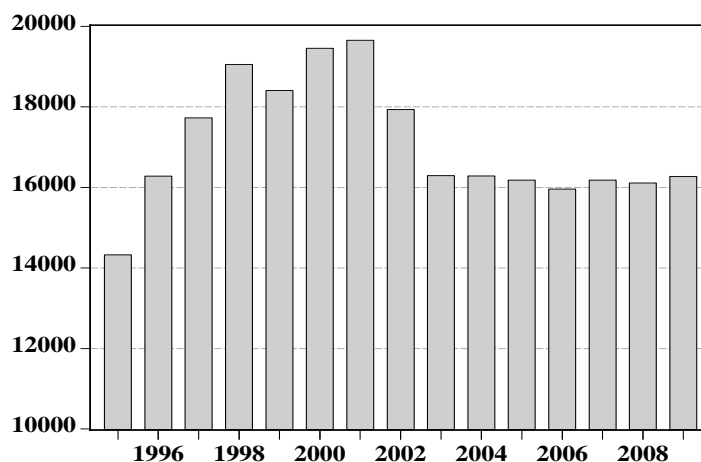
Idaho nominal personal income is forecast to expand about 6.7% per year through 2009, which is significantly faster than at the national level (5.7%). Adjusting for inflation, Idaho personal income is forecast to increase 4.6%, which is also faster than its national counterpart.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: Idaho's computer and electronics manufacturing employment is forecast to hover near 16,000 jobs over the next few years. The good news is this represents a welcome change from the declines it suffered over the past five years. The bad news is this is well below its peak of nearly 19,700 jobs in 2001. This sector lost about 3,500 jobs from 2002 to 2005. About 100 of these jobs will be recovered over the forecast period. This outlook is slightly weaker than in the April 2006 forecast, where it was projected about 750 jobs would be added over the same period.

Nevertheless, the computer and electronics sector is expected to remain the state's largest manufacturing employer into the foreseeable future. Micron Technology is Idaho's largest high-tech employer. Micron Technology is diversifying its product line in order to insulate itself from downturns in the DRAM market. To this end, the company announced it is investing in a new joint venture with Intel to produce NAND flash memory. This type of memory is used in digital cameras, cell phones, and MP3 players. In addition, Micron acquired Lexar Media, Inc. this summer. Lexar is a leading marketer and manufacturer of NAND flash memory products including memory cards, USB flash drives, card readers, and ATA controller technology for the digital photography, consumer electronics, industrial, and communications markets. The move will create synergy that will strengthen Micron's presence in the fast growing NAND memory market.

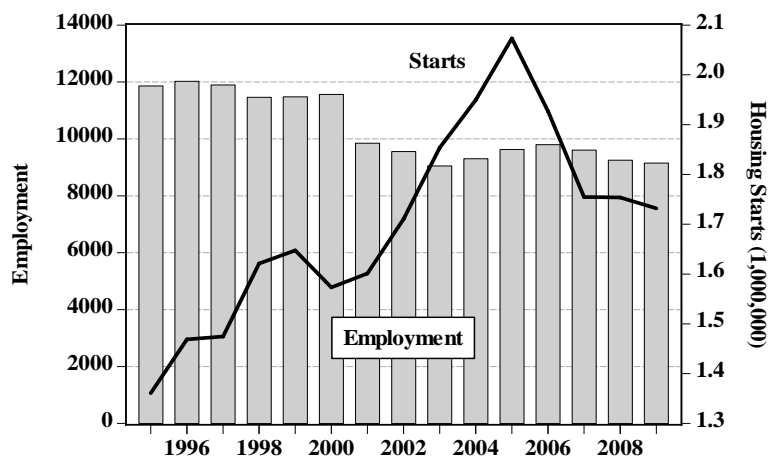
Idaho Computer and Electronic Products Employment



Logging and Wood Products: Idaho's lumber and wood products sector is enjoying a respite from the job losses that plagued it during the second half of the last decade and the beginning years of this decade. Unfortunately, several factors suggest this sector will begin to experience job losses again in the

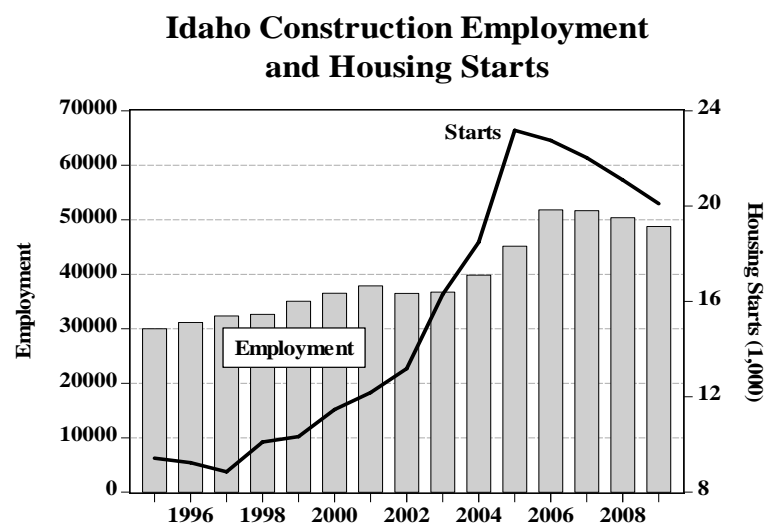
near future. This decline reflects both cyclical and structural pressures. The most significant cyclical factor is the anticipated decline in housing demand. National housing starts, which have enjoyed record annual gains recently, are expected to retreat during the forecast period. As a result, wood products production is expected to slide for the first time since 2003 beginning in 2007. This does not bode well for this industry that has been challenged even during the best of times. For example, although U.S. housing starts expanded nearly 18% from 2000 to 2003, the Gem State's lumber and wood products sector shed 20% of its jobs.

Idaho Wood Product Employment and U.S. Housing Starts



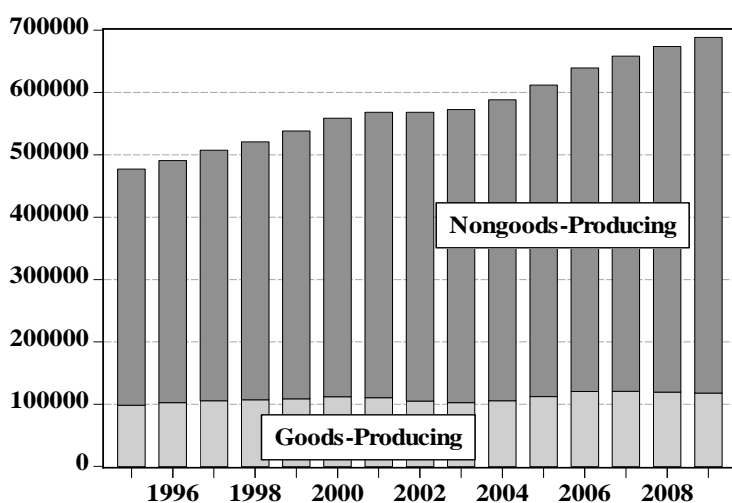
These declines were due to trends that are exerting negative pressures on this sector's employment. One of these trends is the growing efficiency of Idaho wood mills. In order to remain competitive, wood manufacturers have learned to do more with less labor. The impact of this trend is clearly evident. According to calculations based on U.S. Forest Service data, each Idaho logging and wood products sector employee produced about 215,000 board feet of lumber in 2003, which is well above the 172,000 board feet of lumber per worker produced in 1993. The industry has achieved these huge productivity gains by closing older plants and revamping other mills. Both options reduced labor requirements. There will be a constant need for innovation in order to remain competitive in an industry that already has excess capacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling supply of timber from public forests. The U.S. Forest Service estimates the harvest from Idaho national forests fell from 586.2 million board feet in 1993 to 123.2 million board feet in 2003, a decline of nearly 80%. Idaho logging and wood products employment is expected to increase 1.7% this year followed by declines of 1.9% next year, 3.8% in 2008, and 1.0% in 2009.

Construction: It appears the red-hot construction sector has peaked and will gradually decline over the forecast period. Idaho housing starts climbed to an all-time annualized high of 24,800 units in the third quarter of 2005. This peak was followed by 22,114 units in the 2005's last quarter. Idaho starts jumped by about 1,000 units in this year's first quarter, but this increase may exaggerate starts. The housing data are adjusted to reflect seasonal variations. Housing starts are lowest during the winter, so the raw data are adjusted upwards. However, last winter was mild, so starts may not have declined as much as usual. Thus, boosting the raw data may overestimate seasonal housing starts during the first quarter of 2006. This same logic applies to construction employment, which posted a 37.3% annual gain in the same quarter. Before moving to the forecast of Idaho housing starts and construction employment, it is worthwhile to review history. It is truly amazing how long and how strong the housing expansion has been. Idaho's housing starts increased from just over 3,300 units in 1988 to nearly 23,200 units in 2005, which was a 12.2% annual gain over this 17-year period. Idaho construction employment rose about 5.7% annually from 1991 to 2005. To put this growth in perspective, one must remember Idaho nonfarm employment grew 3.2% annually over this same period. The housing sector has accelerated in recent years. For example, after displaying some softness in the mid-1990s, Idaho housing starts have grown every year since 1998. During the seven-year period from 1998 to 2005 housing starts grew from 8,900 to 23,175—a 160% increase, or about 15% per year. Not surprisingly, Idaho construction employment grew from 32,324 to 45,000 over the same period. Strong local housing demand has caused home prices to surge. Historically, Idaho housing home price appreciation has kept pace with the national consumer price index. However, in recent years Idaho housing prices have increased much faster than inflation, leading to fears the state's housing market is due for a correction. A correction is not without precedent. A hot market caused Idaho housing starts to peak at over 12,600 units in 1977, which was a threefold increase from 1970's 4,000 housing units. Three years later there were less than 6,000 housing starts



in the state. Housing starts remained below 6,000 units for the next decade. We do not anticipate a repeat of the 1970's retreat over the forecast period. While Idaho housing starts are expected to decline from their recent highs, it is believed this decline will be orderly and less steep than it was three decades ago. There are several reasons for this prediction. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, recent studies to identify communities vulnerable to "housing bubbles" show no Idaho communities are at significant risk (most "bubbles" are concentrated on the coasts). Fourth, Idaho could benefit from a boom in second homes. Idaho housing starts are expected to slide to 22,750 units in 2006, 22,033 units in 2007, 21,093 units in 2008, and 20,103 units in 2009. Relatively strong nonresidential building should soften the impact of falling local housing starts on Idaho construction employment. Specifically, employment should rise to 51,807 this year and decline gradually to 48,742 jobs by 2009.

Idaho Nonfarm Employment



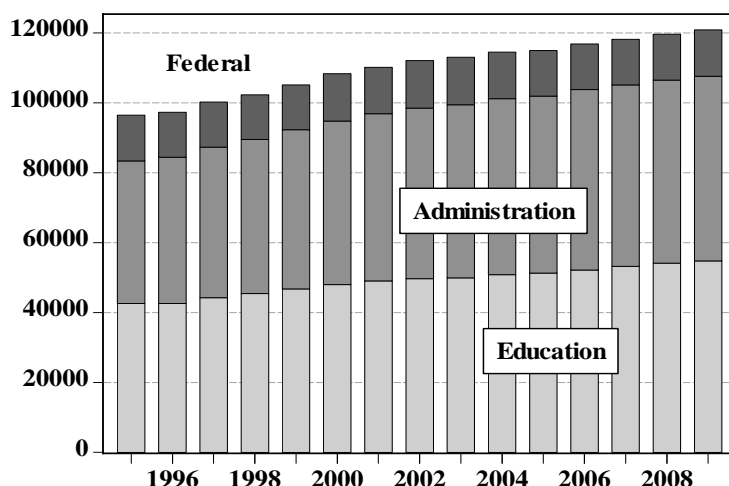
Nongoods-Producing Industries: The private nongoods-producing sector is the state's largest employer and will be its job growth champion over the forecast period. This sector accounted for over six of every ten nonfarm jobs in Idaho last year. The nongoods-producer sector can be divided into its services and trade components. Services consists of the following industries: information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into

retail and wholesale categories. The services component is the larger of the two, accounting for nearly three-quarters of this sector's employment. This component's employment has averaged 4.3% annual growth from 1991 to 2005, while trade employment has expanded 2.6% per year. The service component's strength is no surprise, given it includes some of the economy's most impressively performing industries. Together, the services and trade components should continue to outpace overall employment growth. Specifically, private nongoods-producing employment should expand 4.0% annually and total nonfarm employment should rise 3.0% per year.

Government: The public sector accounts for nearly one of every five jobs in Idaho. The state and local government category is by far the largest employer, accounting for about 90% of the total. Traditionally, state and local employment has grown much faster than federal employment. In fact, the former has been expanding while the latter has been contracting. The number of state and local government jobs has grown from 75,900 in 1992 to 101,869 in 2005. During this same period federal government employment has dropped from 13,500 to 13,100. The difference in their growth rates reflects the factors propelling them. One of the reasons state and local employment growth eclipsed federal employment growth is because the former is directly fueled by the state's strong population growth. Driven by a flood of newcomers, Idaho's population expanded nearly 30% from 1990 to 2000. Beginning this decade, Idaho state and local employment growth slowed as the state's population growth eased. However, recent evidence suggests Idaho's population has recently accelerated. The U.S. Census Bureau estimates the Gem State's population jumped about 2.7% in 2005—the first time it has advanced above

2% this decade. Population is expected to grow another 2.7% this year, then slow gradually over the remaining years of the forecast. Idaho state and local government employment growth should follow a similar pattern. Specifically, state and local employment is predicted to rise 1.9% this year, 1.3% next year, 1.3% in 2008, and 1.1% in 2009. The fate of federal government employment in the state is largely determined by factors outside its borders, primarily the federal budget. Given the U.S. Congress's anticipated austerity measures to deflate the swelling federal budget deficit, federal employment in Idaho should remain near 13,100 jobs over the forecast period. However, there are downside risks to this forecast. The latest round of base realignments and closures that has been approved by President Bush will affect federal government employment in Idaho. It has been estimated 660 jobs will be lost, with Mountain Home Air Force Base taking the biggest hit. Federal government employment growth should accelerate slightly in 2009 as the nation ramps up for the 2010 census.

Idaho Government Employment

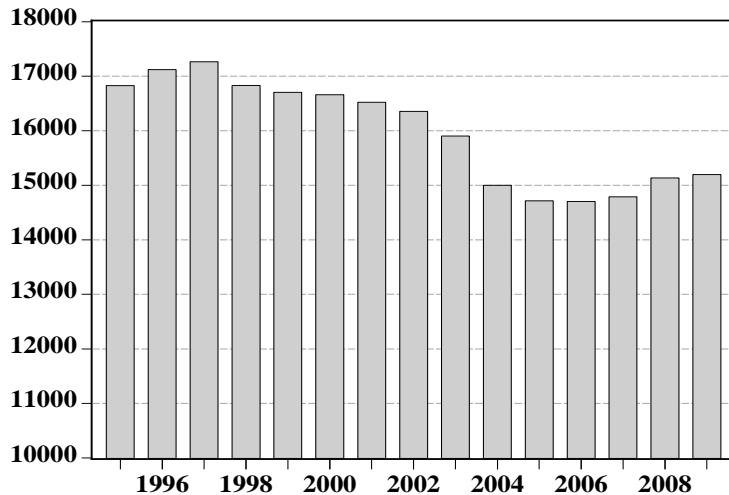


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Mining and Chemicals: Two of the state's resource industries are experiencing welcome rounds of prosperity. However, these good times are projected to be followed by more challenging times. Idaho mining industry employment has been expanding for four years thanks in large part to rising metal prices. Idaho mining employment rose from a recent nadir of 1,758 jobs in 2002 to 2,199 in 2005. Mining employment is forecast to increase another 17.4% to 2,535 jobs this year. Unfortunately, it appears these recent employment gains are a brief deviation from the trend of declining employment. A timeline of Idaho mining employment shows Idaho mining employment peaks have been getting smaller. For example, Idaho mining employment peaked at 5,200 jobs in 1981. The next peak occurred in 1990, but it was 3,900 jobs. This peak was followed by a peak of 3,100 jobs in 1997. This trend should continue, with employment hitting 2,557 jobs in 2007. Unfortunately, mining employment is expected to decline to about 2,100 jobs in 2009. It needs to be pointed out that most of the risks to the mining sector employment forecast are on the upside. Most significantly, soaring metal prices could stimulate exploration and production, which would result in more jobs than have been predicted in this forecast. The state's chemical sector has also enjoyed success recently after suffering setbacks. The most significant one being the loss of the Astaris (formerly FMC) elemental phosphorous plant located just outside of Pocatello in 2002. As a result, chemical employment declined over 17% that year. In addition, Kerr-McGee closed its Soda Springs plant. The chemical sector's employment has stabilized near 2,000 jobs in recent years. However, anticipated declines in agricultural chemical production point to declining employment down the road. Specifically, Idaho chemical employment is projected to decline 1.4% in 2007, 3.8% in 2008, and 3.2% in 2009.

Food Processing: After declining for a decade, Idaho food processing employment is forecast to increase in 2007, 2008, and 2009. Employment declined from a high of 17,263 jobs in 1997 to a predicted low of 14,704 jobs in 2006 as some of Idaho's largest processors curtailed operations. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot

Idaho Food Processing Employment



Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restrict imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About 400 jobs were lost when the company permanently closed the plant. Although some plants have closed, new plants are opening. Gossner Foods, Inc. has opened a new cheese manufacturing plant in Heyburn on land

formerly occupied by the J.R. Simplot plant. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years, making it one of Elmore County's largest employers. Idaho food processing employment is projected to increase 0.6% in 2007, 2.3% in 2008, and 0.4% in 2009.